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VIA HAND DELIVERY

Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

May 12, 2004

KENDRICK R. RIGGS

DIRECT DIAL 502-560-4222
DIRECT FAX 502-627-8722

kriggs@ogdenlaw.com

RECEIVED

MAY 12 2004

PUBLIC SERVICE
COMMISSION

RE: *Application of Louisville Gas and Electric Company for an Adjustment of its Gas and Electric Rates, Terms and Conditions*
Case No. 2003-00433

Application of Kentucky Utilities Company for an Adjustment of its Electric Rates, Terms and Conditions
Case No. 2003-00434 ✓

Dear Mr. Dorman:

Enclosed please find and accept for filing two originals and five copies of the parties Rate Case Partial Settlement Agreement, Stipulation and Recommendation and ESM Settlement Agreement in the above-referenced matters. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,

Kendrick R. Riggs

KRR/ec

Enclosures

cc: Parties of Record

RECEIVED

SETTLEMENT AGREEMENT

MAY 12 2004

PUBLIC SERVICE
COMMISSION

This Settlement Agreement is entered into this 12th day of May 2004, by and between Louisville Gas and Electric Company ("LG&E"); Kentucky Utilities Company ("KU") (LG&E and KU are hereafter collectively referenced as "the Utilities"); Commonwealth of Kentucky, ex. rel. Gregory Stumbo, Attorney General, by and through the Office of Rate Intervention ("AG"); Kentucky Industrial Utility Customers, Inc. ("KIUC") and the interests of its participating members as represented by and through the KIUC; Commonwealth of Kentucky, Environmental and Public Protection Cabinet, Division of Energy ("KDOE"); the United States Department of Defense ("DOD"); The Kroger Company ("Kroger"); Kentucky Association for Community Action, Inc. ("KACA"); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); Metro Human Needs Alliance ("MHNA"); People Organized and Working for Energy Reform ("POWER"); Lexington-Fayette Urban County Government ("LFUCG"); and North American Stainless, L.P. ("NAS") in the proceedings involving LG&E and KU which are the subject of this Settlement Agreement, as set forth below.

WITNESSETH:

WHEREAS, LG&E filed on December 29, 2003 with the Kentucky Public Service Commission ("Commission") its Application for Authority to Adjust Rates, *In Re the Matter of: An Adjustment of the Gas and Electric Rates, Terms and Conditions of Louisville Gas and Electric Company*, and the Commission has established Case No. 2003-00433 to review LG&E's base rate application;

WHEREAS, KU filed on December 29, 2003 with the Commission its Application for Authority to Adjust Rates, *In Re the Matter of: An Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company*, and the Commission has established Case No. 2003-00434 to review KU's base rate application;

WHEREAS, the AG, KIUC, KDOE and Kroger have been granted intervention by the Commission in both of the forgoing proceedings; MHNA, POWER, DOD and KACA have been granted intervention by the Commission in Case No. 2003-00433 only; and LFUCG, NAS and CAC have been granted intervention by the Commission in Case No. 2003-00434 only;

WHEREAS, on March 31, 2004, the Commission granted consolidation of Case No. 2003-00433 with the case captioned *In Re the Matter of: An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Louisville Gas and Electric Company*, Case No. 2003-00335;

WHEREAS, on March 31, 2004, the Commission granted consolidation of Case No. 2003-00434 with the case entitled *In Re the Matter of: An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Kentucky Utilities Company*, Case No. 2003-00334;

WHEREAS, the AG and KIUC have been granted intervention by the Commission in both Case Nos. 2003-00334 and 2003-00335; and LFUCG has been granted intervention by the Commission in Case No. 2003-00334 only;

WHEREAS, LG&E's current Earnings Sharing Mechanism tariff was effective on January 2, 2003 pursuant to the Commission's Orders of December 20, 2002 and January 14, 2003 in Case No 2002-00473 (LG&E); and KU's current ESM tariff was effective on January 2, 2003 pursuant to the Commission's Orders of December 20, 2002 and January 14, 2003 in Case No. 2002-00472 (collectively the "ESM tariffs");

WHEREAS, on March 1, 2004 LG&E filed its Annual Earnings Sharing Mechanism Filing for Calendar Year 2003 in Case No. 2004-00069;

WHEREAS, on March 1, 2004 KU filed its Annual Earnings Sharing Mechanism Filing for Calendar Year 2003 in Case No. 2004-00070;

WHEREAS, a prehearing conference, attended in person or by teleconference by representatives of the AG, KIUC, KDOE, DOD, Kroger, KACA, CAC, MHNA, POWER, LFUCG, NAS, the Commission Staff and the Utilities, took place on April 28, 2004 at the offices of the Commission during which a number of procedural and substantive issues were discussed, including potential settlement of certain issues pending before the Commission in Case Nos. 2003-00433 and 2003-00434, Case Nos. 2003-00334 and 2003-00335 (the “ESM renewal proceedings”), and Case Nos. 2004-00069 and 2004-00070 (the “2003 ESM proceedings”); and

WHEREAS, the signatories hereto desire to settle certain issues pending before the Commission in the rate proceedings, the ESM renewal proceedings and the 2003 ESM proceedings.

NOW, THEREFORE, for and in consideration of the premises and conditions set forth herein, the parties hereby agree as follows:

ARTICLE I. Earnings Sharing Mechanism (“ESM”) Recovery and Discontinuation

SECTION 1.1 Effective July 1, 2004, the Earnings Sharing Mechanism, except as set forth in Sections 1.2 through 1.4 below, shall be discontinued.

SECTION 1.2 LG&E has filed with the Commission, in Case No. 2004-0069, the results for the 2003 ESM Reporting Period and the corresponding ESM billing factor pursuant to its ESM tariff. Beginning April 1, 2004, LG&E began billing its 2003 ESM factor in customer bills. The parties recommend the Commission issue an order in Case No.

2004-0069 approving the 2003 ESM factor as filed and authorizing LG&E to continue billing its ESM factor through March 31, 2005 and collect and retain all the revenues derived from the billing of 2003 ESM factor. Specifically, for the period of April 1, 2004 through April 30, 2004, LG&E should be allowed to bill, collect and retain amounts permitted under its ESM tariff with an ESM factor of 2.282%. And, specifically, for the period of May 1, 2004 through March 31, 2005, LG&E should be allowed to bill, collect and retain amounts permitted under its ESM tariff with an ESM factor of 2.360%.

SECTION 1.3

KU has filed with the Commission, in Case No. 2004-0070, the results for the 2003 ESM Reporting Period and the corresponding ESM billing factor pursuant to its ESM tariff. Beginning April 1, 2004, KU began billing its 2003 ESM factor in customer bills. The parties recommend the Commission issue an order in Case No. 2004-0070 approving the 2003 ESM factor as filed and authorizing KU to continue billing its ESM factor through March 31, 2005 and collect and retain all the revenues derived from the billing of 2003 ESM factor. Specifically, for the period of April 1, 2004 through April 30, 2004, KU should be allowed to bill, collect and retain amounts permitted under its ESM tariff with an ESM factor of 2.367%. And, specifically, for the period of May 1, 2004 through March 31, 2005, KU should be allowed to bill, collect and retain

amounts permitted under its ESM tariff with an ESM factor of 2.330%.

SECTION 1.4 No later than May 2005, the Utilities shall perform a final balancing adjustment to reconcile any over- or under-collection of the ESM revenues for the current ESM billing period, April 2004 through March 2005.

SECTION 1.5 The Utilities agree to waive their rights to make any billing or seek any collection under their respective ESM tariffs for the six-month period ending June 30, 2004, excluding the operation of the ESM mechanism as provided in Sections 1.2 through 1.4 above.

ARTICLE II. Approval of Settlement Agreement

SECTION 2.1 Following the execution of this Settlement Agreement, the signatories shall cause the Settlement Agreement to be filed with the Commission with a request to the Commission for consideration and approval of this Settlement Agreement by May ____, 2004.

SECTION 2.2 The signatories to this Settlement Agreement shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

SECTION 2.3 If the Commission issues a final order which accepts and approves this Settlement Agreement in its entirety, then the parties hereto

hereby waive any and all claims or demands, asserted or unasserted, directly arising out of or in connection with the application or operation of the Utilities' respective ESMs in Case Nos. 2004-0069, 2004-070, 2003-00334 and 2003-00335, and all such claims or demands shall be deemed settled under or compromised, released and discharged by this Settlement Agreement.

SECTION 2.4

If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and none of the parties shall be bound by any of the provisions herein; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

SECTION 2.5

Should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement and thereafter any implementation of the terms of the Settlement Agreement has been made, then the parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this agreement.

ARTICLE III. Additional Provisions

SECTION 3.1 This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

SECTION 3.2 This Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors and assigns.

SECTION 3.3 This Settlement Agreement constitutes the complete agreement and understanding among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

SECTION 3.4 For the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if any, of any future events upon the operating income of LG&E or KU are unknown and this Settlement Agreement shall be implemented as written.

SECTION 3.5 Neither the Settlement Agreement nor any of the terms shall be admissible in any court or commission except insofar as such court

or commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

SECTION 3.6 The provisions of this Settlement Agreement shall not bar a party from seeking, or the Commission from reinstating, an ESM at some future time, in order to accomplish reasonable and valid regulatory objectives.

SECTION 3.7 Making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid.

SECTION 3.8 The signatories hereto warrant that they have informed, advised, and consulted with the respective parties hereto in regard to the contents and significance of this agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the parties hereto.

SECTION 3.9 This Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission.

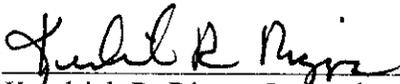
SECTION 3.10 This Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party.

SECTION 3.11 This Settlement Agreement may be executed in multiple counterparts.

IN WITNESS WHEREOF, the parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company
and Kentucky Utilities Company

HAVE READ AND AGREED:

By: 
Kendrick R. Riggs, Counsel

-and-

By: 
Dorothy E. O'Brien, Counsel

Commonwealth of Kentucky, ex. rel. Gregory Stumbo, Attorney General, by and through the Office of Rate Intervention

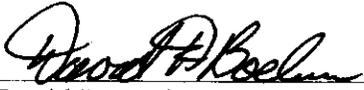
HAVE READ AND AGREED:

By: _____

Elizabeth E. Blackford, Counsel

Kentucky Industrial Utility Customers, Inc.

HAVE READ AND AGREED:

By: 
David F. Boehm, Counsel
Michael L. Kurtz, Counsel

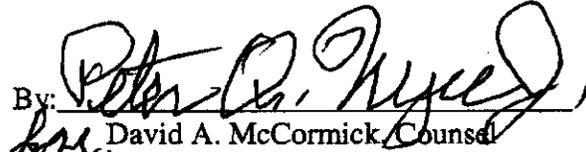
Commonwealth of Kentucky,
Environmental and Public Protection Cabinet,
Division of Energy

HAVE READ AND AGREED:

By: 
Iris Skidmore, Counsel

United States Department of Defense

HAVE SEEN AND AGREED:

By: 
for: David A. McCormick, Counsel

cc

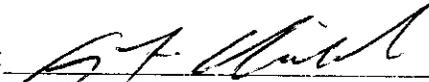
The Kroger Company

HAVE READ AND AGREED:

By: 
David C. Brown, Counsel

Kentucky Association for Community
Action, Inc.

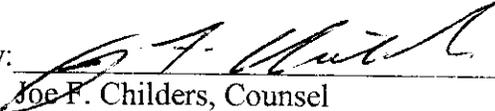
HAVE READ AND AGREED:

By: 

Joe F. Childers, Counsel

Community Action Council for
Lexington-Fayette, Bourbon, Harrison
and Nicholas Counties, Inc.

HAVE READ AND AGREED:

By: 
Joe F. Childers, Counsel

Metro Human Needs Alliance

HAVE READ AND AGREED:

By: *Lisa Kilkelly*
Lisa Kilkelly, Counsel

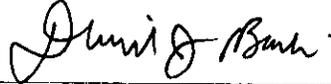
People Organized and Working for Energy Reform

HAVE READ AND AGREED:

By: Lisa Kilkelly
Lisa Kilkelly, Counsel

Lexington-Fayette Urban County Government

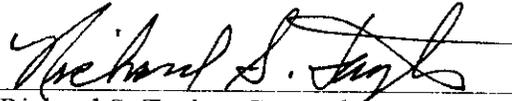
HAVE READ AND AGREED:

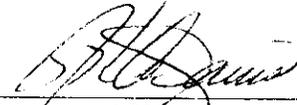
By: 

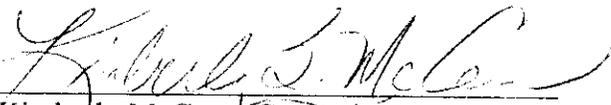
David J. Barberie, Counsel

North American Stainless, L.P.

HAVE READ AND AGREED:

By: 
Richard S. Taylor, Counsel

By: 
Nathaniel K. Adams, General Counsel

By: 
Kimberly McCann, Counsel

RECEIVED

MAY 12 2004

PARTIAL SETTLEMENT AGREEMENT, STIPULATION AND RECOMMENDATION

This Partial Settlement Agreement, Stipulation and Recommendation ("Settlement Agreement") is entered into this 12th day of May 2004, by and between Louisville Gas and Electric Company ("LG&E"); Kentucky Utilities Company ("KU") (LG&E and KU are hereafter collectively referenced as "the Utilities"); Commonwealth of Kentucky, ex. rel. Gregory Stumbo, Attorney General, by and through the Office of Rate Intervention ("AG"); Kentucky Industrial Utility Customers, Inc. ("KIUC") and the interests of its participating members as represented by and through the KIUC; Commonwealth of Kentucky, Environmental and Public Protection Cabinet, Division of Energy ("KDOE"); the United States Department of Defense ("DOD"); The Kroger Co. ("Kroger"); Kentucky Association for Community Action, Inc. ("KACA"); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); Metro Human Needs Alliance ("MHNA"); People Organized and Working for Energy Reform ("POWER"); Lexington-Fayette Urban County Government ("LFUCG"); and North American Stainless, L.P. ("NAS") in the proceedings involving LG&E and KU which are the subject of this Settlement Agreement, as set forth below.

WITNESSETH:

WHEREAS, LG&E filed on December 29, 2003 with the Kentucky Public Service Commission ("Commission") its Application for Authority to Adjust Rates, *In Re the Matter of: An Adjustment of the Gas and Electric Rates, Terms and Conditions of Louisville Gas and Electric Company*, and the Commission has established Case No. 2003-00433 to review LG&E's base rate application;

WHEREAS, KU filed on December 29, 2003 with the Commission its Application for Authority to Adjust Rates, *In Re the Matter of: An Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company*, and the Commission has established Case No. 2003-

00434 to review KU's base rate application (Case Nos. 2003-00433 and 2003-00434 are hereafter collectively referenced as the "rate proceedings");

WHEREAS, the AG, KIUC, KDOE, KACA and Kroger have been granted intervention by the Commission in both of the rate proceedings; MHNA, POWER and DOD have been granted intervention by the Commission in Case No. 2003-00433 only; and LFUCG, NAS and CAC have been granted intervention by the Commission in Case No. 2003-00434 only;

WHEREAS, on March 31, 2004, the Commission granted consolidation of Case Nos. 2003-00433 and 2003-00434 with the case captioned *In the Matter of: Tariff Filing of Kentucky Utilities Company and Louisville Gas and Electric Company for Non-Conforming Load Customers*, Case No. 2003-00396 (which case had previously been consolidated with *In the Matter of: North American Stainless v. Kentucky Utilities Company*, Case No. 2003-00376).

WHEREAS, a prehearing conference, attended in person or by teleconference by representatives of the AG, KIUC, KDOE, DOD, Kroger, KACA, CAC, MHNA, POWER, LFUCG, NAS, the Commission Staff and the Utilities, took place on April 28, 2004 at the offices of the Commission during which a number of procedural and substantive issues were discussed, including potential settlement of certain issues pending before the Commission in the rate proceedings;

WHEREAS, on May 4, 2004, the hearing in the rate proceedings began and was adjourned for the purpose of exploring the possibility of settlement of the rate proceedings or stipulation of issues therein, which discussions were attended in person by representatives of the AG, KIUC, KDOE, DOD, Kroger, KACA, CAC, MHNA, POWER, LFUCG, NAS, the Commission Staff and the Utilities;

WHEREAS, all of the signatories hereto desire to settle all the issues pending before the Commission in the rate proceedings, except for the AG, who is unwilling to settle the issue of the revenue requirements of LG&E's electric operations and KU's operations;

WHEREAS, it is understood by all signatories hereto that this Settlement Agreement is subject to the approval of the Commission, insofar as it constitutes an agreement by all parties to the rate proceedings for settlement, and does not represent agreement on any specific theory supporting the appropriateness of any proposed or recommended adjustments to the Utilities' rates, terms and conditions;

WHEREAS, it is understood by all signatories hereto that, insofar as this Settlement Agreement does not recite the agreement of the AG to settle the issue of the revenue requirements of the LG&E electric operations and the KU operations, it is a stipulation among the signatories hereto other than the AG as to the foregoing revenue requirement issues, pursuant to 807 KAR 5:001, Section 4(6);

WHEREAS, the signatories have spent many hours, over several days, in order to reach the stipulations and agreements which form the basis of this Settlement Agreement;

WHEREAS, all of the signatories, who represent diverse interests and divergent viewpoints, agree that this Settlement Agreement, viewed in its entirety, is a fair, just and reasonable resolution of all the issues in the rate proceedings;

WHEREAS, the adoption of this Settlement Agreement will reduce the length of the hearing, simplify the briefing, and eliminate the possibility of, and any need for, rehearing on the issues stipulated and agreed to; and

WHEREAS, it is the position of the parties hereto that this Settlement Agreement is supported by sufficient and adequate data and information, and should be approved by the Commission.

NOW, THEREFORE, for and in consideration of the premises and conditions set forth herein, the parties hereby stipulate and agree as follows:

ARTICLE I. Revenue Requirement.

Section 1.1. The signatories hereto, except the AG, stipulate that the following annual increases in revenues for LG&E electric operations and for KU operations, for purposes of determining the rates of LG&E and KU in the rate proceedings, are fair, just and reasonable for the signatories and for all customers of LG&E (electric) and KU:

Section 1.1.1. LG&E Electric Operations: \$43,400,000;

Section 1.1.2. KU Operations: \$46,100,000.

The signatories hereto, including the AG, agree that any annual increase in revenues for LG&E electric operations and for KU operations will be effective July 1, 2004.

Section 1.2. The signatories hereto, including the AG, agree that, effective July 1, 2004, the annual increases in revenues for LG&E gas operations of \$11,900,000, for purposes of determining the rates of LG&E gas operations in the rate proceedings, are fair, just and reasonable for the signatories and for all gas customers of LG&E.

ARTICLE II. Allocation of Revenue.

Section 2.1. The signatories hereto, including the AG, agree that the allocation of the annual revenue increase for LG&E electric operations, LG&E gas operations and for KU operations, as set forth on the allocation schedule designated Exhibit 1 hereto, in the rate proceedings is fair, just and reasonable for the signatories and for all customers of LG&E and KU. Notwithstanding the foregoing sentence, it is understood that the AG has only agreed that the percentages of the rate classes applicable to each LG&E electric operations rate class and each KU operations rate class on Exhibit 1 hereto are fair, just and reasonable and the AG has made no agreement of any other information relating to such LG&E electric operations or KU operations. All signatories hereto, including the AG, agree that the revenue increase to electric special contract customers set forth on Exhibit 1 hereto shall be allocated such that each special contract customer shall have the same percentage increase in rates.

Section 2.2. The signatories hereto, except the AG, agree that, effective July 1, 2004, the Utilities shall implement the electric rates set forth on Exhibit 1, attached hereto, which rates the signatories hereto, except the AG, stipulate are fair, just and reasonable and should be approved by the Commission. All signatories hereto, including the AG, agree that, effective July 1, 2004, the Utilities shall implement the gas rates set forth on Exhibit 1, attached hereto, which rates the signatories hereto agree are fair, just and reasonable and should be approved by the Commission.

Section 2.3. The signatories hereto, including the AG, agree that the Utilities shall establish a pilot time-of-day program for commercial customers with a monthly demand between 250 kW and 2,000 kW. The rates, terms and conditions of said program shall be as set forth in the Stipulation, dated May 4, 2004, between the Utilities and Kroger and filed in the rate proceedings. A copy of said Stipulation is attached hereto as Exhibit 2 and is incorporated by reference as though fully set forth herein. The forms of tariff designed to implement the Stipulation and the Settlement Agreement are attached hereto as Exhibit 2-A (LG&E) and Exhibit 2-B (KU).

ARTICLE III. Treatment of Certain Specific Issues.

Section 3.1. The signatories hereto, including the AG, agree that, after the date hereof, orders approving cost recovery of LG&E's and KU's environmental projects pursuant to KRS 278.183 shall be based upon an 11.0% return on common equity until directed by order of the Commission that a different rate of return shall be utilized.

Section 3.2. The signatories hereto, including the AG, agree that all of LG&E's gas purification and gas storage loss expenses shall be recovered as part of its Gas Supply Clause mechanism.

Section 3.3. The signatories hereto, except the AG, agree that the depreciation rates of the Utilities shall remain the same as approved in the orders of December 3, 2001, in Case Nos. 2001-140 and 2001-141, until the approval by the Commission of new depreciation rates for the Utilities, for which the

Utilities shall seek approval by filings made in their next general rate cases or June 30, 2007, whichever occurs earlier. The Utilities' depreciation filings shall be based on plant in service as of a date no earlier than one (1) year prior to such filing. From and after the effective date hereof, the Utilities shall maintain their books and records so that net salvage amounts may be identified.

Section 3.4. The signatories hereto, including the AG, agree that all costs associated with KU's 1994 environmental compliance plan (the "1994 Plan") approved in Case No. 93-465 and LG&E's 1995 environmental compliance plan (the "1995 Plan") approved in Case No. 94-332 shall be recovered in the Utilities' base rates, taking into account the Utilities' overall rate of return, and will be removed from the Utilities' monthly environmental surcharge filings, all in accordance with the details of such recovery set forth on Exhibit 3 hereto.

Section 3.5. The signatories hereto, including the AG, agree that, unless the Commission has already modified or terminated the Value Delivery Team ("VDT") surcredits in a subsequent rate case, six (6) months prior to the expiration of the sixty (60) month period in which the VDT surcredits are in operation, the Utilities shall file with the Commission a plan for the future ratemaking treatment of the VDT surcredits, the shareholder savings, the amortization of VDT costs and all other VDT-related issues. The VDT surcredit tariffs shall remain in effect following the expiration of

the sixtieth (60th) month until the Commission enters an order on the future ratemaking treatment of all VDT-related issues.

Section 3.6. The signatories hereto, including the AG, agree that LG&E shall establish a real time pricing (“RTP”) pilot program for LG&E’s electric customers. The term of the program shall be three (3) years. In each year, up to fifty (50) customers under Rate R and up to fifty (50) customers under Rate GS shall qualify for the program. During the second year of the program, LG&E shall propose to the Commission detailed plans, terms and conditions for the inclusion of customers under Rate LP in the program, such inclusion to take place during the second year of the program. Rate LP customers shall be eligible for participation in the program during the second and third years of the program in accordance with the Commission’s approval of LG&E’s proposal for inclusion of Rate LP customers. The customer-specific costs shall be recovered through a facilities charge incorporated into the applicable customer charges during the first six (6) months of the RTP pilot program. After six (6) months, the Utilities shall evaluate the level of participation in the pilot program and consider modifying the treatment of such customer-specific charges to encourage participation in the RTP pilot program. The non customer-specific costs of modifying LG&E’s customer billing system to bill customers under the RTP pilot program will be recovered pursuant to the RTP pilot program through a charge per kWh billed to customers taking service under Rates R, GS and LP in the same manner as the Demand-Side

Management (“DSM”) Cost Recovery Component of LG&E’s DSM Cost Recovery Mechanism. After the end of the three year term, LG&E will evaluate the performance of the RTP pilot program for the following purposes, including, but not limited to: (i) to determine the impact of the pilot program on its affected customers; (ii) to determine the amount of revenue loss from the pilot program, if any; (iii) to evaluate customer acceptance of the real time pricing program and (iv) to evaluate the potential for implementing the RTP program as either a permanent demand-side management program or as a standard rate schedule. LG&E shall file a report with the Commission describing its findings within six months after the first three years of implementation of the RTP pilot program. The RTP pilot program shall remain in effect until the program is modified or terminated by order of the Commission.

Section 3.7. The signatories hereto, including the AG, agree that the notice period for an Operational Flow Order pursuant to LG&E’s Rate FT shall be twenty-four (24) hours.

Section 3.8. The signatories hereto, including the AG, agree that the miscellaneous charges of the Utilities shall be approved as proposed by the Utilities in the rate proceedings, except as follows: (i) the Disconnect-Reconnect Charge for LG&E electric customers, LG&E gas customers and KU electric customers shall be \$20.00; and (ii) the KU After-Hours Reconnect Charge shall be withdrawn.

- Section 3.9. The signatories hereto, including the AG, agree that the following monthly customer charges shall be implemented: (i) LG&E electric residential customers, \$5.00 per month; (ii) LG&E gas residential customers, \$8.50 per month; (iii) KU residential customers, \$5.00 per month; (iv) LG&E GS electric single phase, \$10.00 per month; (v) LG&E GS electric three phase, \$15.00 per month; (vi) KU GS primary, \$10.00 per month; and (vii) KU GS secondary, \$10.00 per month. All other customer charges shall be implemented as proposed by the Utilities in their Applications filed on December 29, 2003 in the rate proceedings.
- Section 3.10. The signatories hereto, including the AG, agree that, for both LG&E and KU, Rate GS shall be available to electric customers with connected loads up to 500 kW.
- Section 3.11. The signatories hereto, including the AG, agree that LG&E shall withdraw its Standard Riders for Summer Air Conditioning Service for its gas operations, and that customers served thereunder shall take service under otherwise applicable rate schedules.
- Section 3.12. The signatories hereto, including the AG, agree that LG&E shall not bill an additional customer charge to Rate GS customers formerly taking service under the Rider for Electric Space Heating Service under Rate GS.
- Section 3.13. The signatories hereto, including the AG, agree that LG&E shall eliminate the seasonal rate structure for Rate RS and shall implement a non-seasonally differentiated rate structure for Rate RS. Nothing contained in

this Section shall preclude the Utilities from making a future proposal for a seasonal rate structure.

Section 3.14. The signatories hereto, including the AG, agree that, in conjunction with the AG, KACA, CAC, MHNA, and POWER, the Utilities will file plans for program administration with the Commission for year-round Home Energy Assistance (“HEA”) programs in both of their respective service territories based solely upon a ten-cent per residential meter per month charge (the “HEA charge”) for a period of three years. The HEA charge will be collected in the same manner as the DSM Cost Recovery Component of the Utilities’ DSM Cost Recovery mechanism. The HEA programs shall be operated by existing social service providers (“Providers”) with experience operating low-income energy assistance programs, who shall be entitled to recover actual operating expenses not to exceed ten percent (10%) of total HEA funds collected.

The signatories hereto, including the AG, agree that each HEA program will be subject to an outside independent annual audit conducted by an independent certified public accountant, in accordance with the Providers’ existing audit requirements. Each audit shall include a detailed accounting of all expenses associated with administration of the program, which shall be filed annually with the Commission.

The signatories hereto, including the AG, further agree that KU shall be permitted recovery of its one-time information technology implementation costs through its DSM mechanism.

- Section 3.15. The signatories hereto, including the AG, agree that the HEA programs to be filed shall have a commencement date of October 1, 2004. Approval of this Settlement Agreement by the Commission shall constitute approval of the HEA parameters as proposed herein, subject to further review by the Commission of additional programmatic details. No money shall be distributed to the Providers pursuant to the HEA programs, or allocated pursuant to such programs, until such time as the Commission has issued final approval of the programmatic details.
- Section 3.16. Within ninety days of the conclusion of the second year of the program, the Providers shall file with the Commission comprehensive program assessments to insure that the programs are meeting their respective established goals. Based upon those filings, and public hearings, if any, relating thereto, the Commission will then determine whether the HEA programs shall continue beyond three years and, if so, whether any modifications should be made to those programs.
- Section 3.17. The signatories hereto, including the AG, who are parties to the respective Franklin Circuit Court actions hereby agree that upon approval of this Settlement Agreement by the Commission, they will jointly move the Franklin Circuit Court for the entry of an order dismissing the pending HEA and Pay As You Go ("PAYG") appeals, Civil Action Nos. 02-CI-00991 and 03-CI-00634, respectively.
- Section 3.18. The signatories hereto, including the AG, agree that LG&E will phase out its PAYG program by limiting the program to existing customers and by

removing those meters from existing customers as requested, as meters fail, or as customers move off the system. However, LG&E reserves the right to completely terminate the program upon sixty days advance notice to the Commission. LG&E and KU further agree that they will not seek approval of new prepaid metering programs for a period of at least five years from the date hereof, and that, after five years, approval by the Commission will be a necessary prerequisite to operating any new prepaid metering program.

Section 3.19. The signatories hereto, including the AG, agree that OMU NO_x expenditures of \$1 million per year incurred by KU pursuant to its contract with Owensboro Municipal Utility shall be recovered in KU's Environmental Cost Recovery filings pursuant to KRS 278.183. Recovery of the foregoing costs shall begin in April 2005 based upon the February 2005 expense month for KU.

Section 3.20. The signatories hereto, including the AG, agree that LG&E and KU shall offer a Curtailable Service Rider ("CSR1") to current customers who meet the eligibility requirements set forth in the proposed CSR1 tariff on such terms and conditions as specified in the proposed tariff subject to the following terms and conditions: (1) the customers shall be subject to curtailment for 250 hours annually; (2) the amount of the credit shall be \$3.20 per kW for primary voltage customers and \$3.10 per kW for transmission voltage customers; (3) the customers shall be entitled to 20 minutes notice of curtailment; (4) current customers shall have the option

of buying through the curtailment at the market rate as determined by LG&E/KU; (5) in the event a customer elects to buy through a curtailment, the customer shall be required to purchase all of the demand to be curtailed on an hourly basis; and (6) this curtailable service rider is available only to those customers who are covered by an existing curtailable service rider as of the execution of this Settlement Agreement.

Section 3.21. The signatories hereto, including the AG, agree that new customers not currently served by an existing CSR will be eligible to take curtailable service under a new CSR tariff (CSR2) as originally filed by the Companies in the rate proceedings, except such customers will be able to buy through a request for curtailment only after having been on the CSR2 service for three years with no failure to curtail when requested.

Section 3.22. The signatories hereto, including the AG, agree that NAS's electric arc furnace operations shall receive electric service pursuant to the LI-TOD tariff, effective April 1, 2004, except as otherwise noted and which shall provide that the LI-TOD tariff shall be the same as the Non-Conforming Load Service Tariff ("NCLS") as proposed in Case No. 2003-00396 with the following changes:

- (1) non-conforming load service shall be changed throughout to read large industrial-time of day (LI-TOD);
- (2) the rates to be applied shall be the same rates applicable to customers on the LCI-TOD tariff;

(3) the demand charge shall be calculated by multiplying the rate established above by demand measured as Peak Demand (KVA) measured in 15 minute intervals plus the difference between Peak Demand measured in 5 minute intervals less Peak Demand measured in 15 minute intervals (if a positive number) multiplied by 0.5 times the rate, expressed as $DC = [D_{15} + (D_5 - D_{15})0.5]R$.

(4) Under the section of the tariff entitled System Contingencies and Industry System Performance Criteria the following additions are agreed:

a. The third sentence thereof shall be amended to limit the number of interruptions per month to no more than twenty with no carry-over from month to month. Within sixty days of the end of the applicable billing period, upon request, information and documentation necessary for customer to verify that interruptions were caused by system contingencies as defined herein will be made available to customer;

b. Customers under the LI-TOD tariff may contract to curtail service upon notification by Company on the same terms and conditions as exist under the Curtailable Service Rider for LCI-TOD customers except requests for curtailment by the Companies shall not exceed 200 hours in the first year the Customer contracts for service, effective April 1, 2004, and 100 hours in each continuously succeeding year. Requests for curtailment shall be limited to on-peak periods specified in the LCI-TOD tariff.

c. All other provisions of the curtailable service rider as proposed in this Settlement Agreement for customers on the LCI-TOD tariff shall apply except that Customer may not buy through a request for curtailment by virtue of the unusual nature of the load of the Large Industrial class of customers.

d. System contingencies shall be defined in the tariff as:

In order to facilitate Company compliance with system contingencies and with NERC/ECAR System Performance Criteria, Customer will permit the Company to install electronic equipment and associated real time metering to permit Company interruption up to 95% of the Customer's load under this tariff when the LG&E Energy LLC System ("LEC System") experiences an unplanned outage or de-rate of LEC System-owned or purchased generation, or when Automatic Reserve Sharing is invoked within the ECAR or an ISO/RTO. LEC System as used herein shall consist of Company and Louisville Gas and Electric Company. Such equipment will electronically notify customer five (5) minutes before the electronically initiated interruption that will begin immediately thereafter and last no longer than ten (10) minutes. The interruptions will not be accumulated and credited against the annual curtailment hours under this contract.

(5) Customers covered by the LI-TOD tariff as of April 1, 2004 shall have the option to contract for additional service for a period of not less

than five (5) years under the terms of the tariff by signing a contract for additional service by March 1, 2005 which commits service to begin, or to pay, demand charges as agreed in such contract no later than July 1, 2006 before the tariff is extended to other customers. If the option given to current customers herein is not exercised by the dates specified the option expires.

(6) The difference, if any, between the invoiced charges for electric service for the NAS electric arc furnace operations for the months of April, May, and June, 2004 actually paid by NAS and those charges ultimately billed as approved by the Commission shall be refunded to NAS as a billing credit going forward.

Section 3.23. The signatories hereto, including the AG, agree that, except as modified in this Settlement Agreement, the proposals of the Utilities in the rate proceedings shall be approved as filed.

ARTICLE IV. Miscellaneous Provisions.

Section 4.1. The signatories hereto, including the AG, agree that making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid.

Section 4.2. The signatories hereto, including the AG, agree that the foregoing stipulations and agreements represent a fair, just and reasonable resolution

of the issues addressed herein and request the Commission to approve the Settlement Agreement.

Section 4.3. The signatories hereto, including the AG, agree that, following the execution of this Settlement Agreement, the signatories shall cause the Settlement Agreement to be filed with the Commission by May 11, 2004, together with a request to the Commission for consideration and approval of this Settlement Agreement.

Section 4.4. The signatories hereto, other than the Utilities and the AG, stipulate that they will withdraw the direct testimony of their witnesses in the rate proceedings. The signatories hereto, other than the AG, stipulate that they will not otherwise contest the Utilities' proposals in the rate proceedings regarding the subject matter of the Stipulation, and that they will refrain from cross-examination of the Utilities' witnesses during the rate proceedings, except insofar as such cross-examination is in support of the Stipulation.

Section 4.5. The signatories hereto, including the AG, agree that this Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission. The signatories hereto, including the AG, further agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

Section 4.6. The signatories hereto, including the AG, agree that, if the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the

parties hereto from further consideration by the Commission and none of the parties shall be bound by any of the provisions herein, provided that no party is precluded from advocating any position contained in this Settlement Agreement; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

- Section 4.7. The signatories hereto, including the AG, agree that, should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement, then the parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this agreement.
- Section 4.8. The signatories hereto, including the AG, agree that this Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.
- Section 4.9. The signatories hereto, including the AG, agree that this Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.
- Section 4.10. The signatories hereto, including the AG, agree that this Settlement Agreement constitutes the complete agreement and understanding among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith

shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

Section 4.11. The signatories hereto, including the AG, agree that, for the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a fair, just and reasonable resolution of the issues herein and are the product of compromise and negotiation.

Section 4.12. The signatories hereto, including the AG, agree that neither the Settlement Agreement nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

Section 4.13. The signatories hereto, including the AG, warrant that they have informed, advised, and consulted with the respective parties hereto in regard to the contents and significance of this Settlement Agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the parties hereto.

Section 4.14. The signatories hereto, including the AG, agree that this Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if

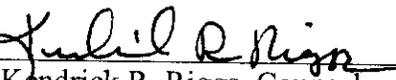
any, of any future events upon the operating income of the Utilities are unknown and this Settlement Agreement shall be implemented as written.

Section 4.15. The signatories hereto, including the AG, agree that this Settlement Agreement may be executed in multiple counterparts.

IN WITNESS WHEREOF, the parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company
and Kentucky Utilities Company

HAVE SEEN AND AGREED:

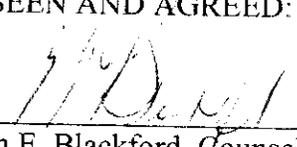
By: 
Kendrick R. Riggs, Counsel

-and-

By: 
Dorothy E. O'Brien, Counsel

Commonwealth of Kentucky, ex. rel. Gregory Stumbo, Attorney General, by and through the Office of Rate Intervention

HAVE SEEN AND AGREED:

By: 
Elizabeth E. Blackford, Counsel

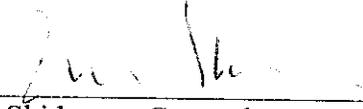
Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

By: 
David F. Boehm, Counsel
Michael L. Kurtz, Counsel

Commonwealth of Kentucky,
Environmental and Public Protection Cabinet,
Division of Energy

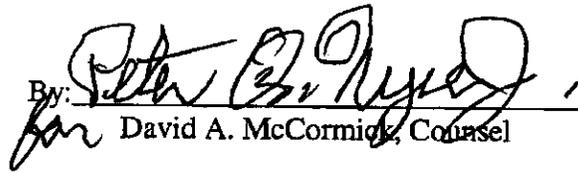
HAVE SEEN AND AGREED:

By: 

Iris Skidmore, Counsel

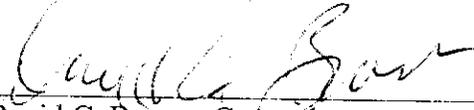
United States Department of Defense

HAVE SEEN AND AGREED:

By: 
for David A. McCormick, Counsel

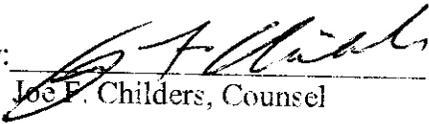
The Kroger Co.

HAVE SEEN AND AGREED:

By: 
David C. Brown, Counsel

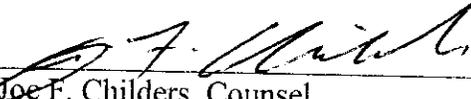
Kentucky Association for Community
Action, Inc.

HAVE SEEN AND AGREED:

By: 
Joe F. Childers, Counsel

Community Action Council for
Lexington-Fayette, Bourbon, Harrison
and Nicholas Counties, Inc.

HAVE SEEN AND AGREED:

By: 

Joe F. Childers, Counsel

Metro Human Needs Alliance

HAVE SEEN AND AGREED:

By: Lisa Kilkelly
Lisa Kilkelly, Counsel

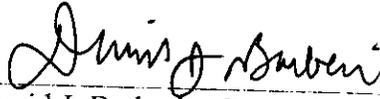
People Organized and Working for Energy Reform

HAVE SEEN AND AGREED:

By: Lisa Kil Kelly
Lisa Kil Kelly, Counsel

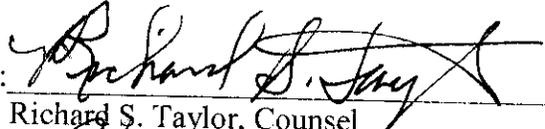
Lexington-Fayette Urban County Government

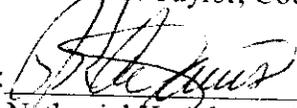
HAVE SEEN AND AGREED:

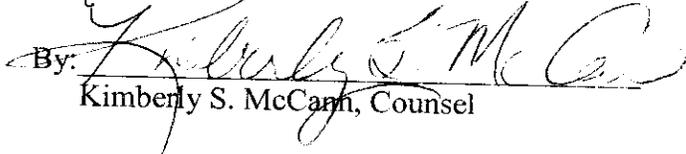
By. 
David J. Barberie, Counsel

North American Stainless, L.P.

HAVE SEEN AND AGREED:

By: 
Richard S. Taylor, Counsel

By: 
Nathaniel K. Adams, Counsel

By: 
Kimberly S. McCann, Counsel